

EUROPEAN PARLIAMENT

COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

WORKING DOCUMENT

on

Protectionism in US/EC trade relations

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A. GENERAL DATA

1. The US is the most important trading partner of the Community: its share in extra-EC Community imports has shown considerable stability, around a value of approximately 16% (1978: 15,9%; 1983: 16,2%), whereas the importance of the US market for EC exports has risen in the 1978-1983 period from 13,7% to 16,6%.

The Community, on the other hand, was the most important market for US exports (22% in 1983), whereas it follows Canada who is the principal supplier to the US (Canada 20%; EC 17% in 1983).

2. The trade balance between the EC and the US has been characterized by continuous EC trade deficits from 1958 until 1983: the trend led to a maximum deficit of -17,826 mioECU in 1980, and was followed by a certain improvement, leading to a reversal of the situation in 1984 (balance for 9 months: EC surplus of 4,050 mioECU). As compared with the same period in 1983, EC imports from the US increased by 15% in 1984 (9 months), whereas EC exports increased by 41% (in value terms).

3. Composition of the EC/US trade: the most striking features in the last years have been an increase in proportion of industrial goods (SITC classes 5-8) in EC imports from the US (1980: 60,6% - 1983: 62,8%), as compared to a decrease in the proportion of the same goods (1980: 79,2% - 1983: 74,2%) in EC exports to the US.

As concerns basic goods (SITC classes 0, 1, 2, 4) except oil, the share in EC exports has risen from 8,3% in 1980 to 11,1% in 1983 whereas the share in EC imports has fallen from 24,5% to 22,5% over the same period. The composition of the EC/US trade has shown therefore a certain stability over recent years.

4. Trade / GDP ratios

EC/US trade has a greater importance for the EC economy than for the US economy. Global EC/US trade in 1983 accounted for 4% of GNP in the Community, and 2,7% in the US (1979: 3,1% and 3,2%). This indicator has

to be appreciated against a global stronger dependence of the EC on its exports (exports/GDP = 12,2% in 1983) than is the case for the US (1983: 7,7%).

5. Trends in specific sectors

The EC is currently running high, but decreasing, deficits in primary sectors (1980: -13.83 Bio USD; 1983: -3.20 Bio USD) and has reversed its negative position as concerns manufactured products (1980: -7.52 Bio USD; 1983: +2.42 Bio USD).

Positive balances in 1983 concerned mainly road vehicles, mineral fuels, iron and steel products; negative balances were concentrated in food products, crude materials (except fuels), office equipments and telecommunications, machinery and transport equipment (except road vehicles).

8. US/EC TRADE RELATIONS AND GATT

6. Principles

US/EC trade is organized, in theory, on the basis of the GATT agreements, i.e. on the basis of the most-favoured nation principle. Special agreements have been undertaken as concerns fishing (1977), nuclear supplies to the EC (1958) and cooperation for peaceful use of nuclear power (1959).

EC steel exports are organized by means of the 1982 agreement on carbon steel (expiring December 1985) and the 1985 agreement on EC pipe and tube exports.

Most of the US/EC trade falls therefore only under GATT rules, and any kind of measure affecting it has to be appreciated in the light of the general agreement and the codes adopted in its system.

7. History

Since 1958, US/EC trade has been influenced by the three rounds of multilateral negotiations in GATT - the Dillon Round (1960/61), the

Kennedy Round (1964/67), and the Tokyo Round (1973/79).

Results achieved have been considerable in the industrial sector (especially as concerns cutting of tariff rates) whereas trade in agricultural products has not been regulated in such a way as to avoid recurrent problems and disputes on matters of the utmost importance.

In the 70's, furthermore, the gradual spreading of non-tariff barriers to trade, and the drift towards market sharing on bilateral basis (i.e. "voluntary restraint" and "orderly marketing" agreements) has adversely affected the results of previous liberalization in the industrial sector, expressing in many ways a protectionist answer to economic crisis.

The economic crises of the 70's, as well as changing international patterns of productivity and comparative advantages, have led, both in the US and in the EC, to heavier public subsidization of ailing industries and protectionist measures taken in order to supply relief from foreign competition (perceived as "unfair").

8. Defence systems in US and the EC against "unfair trade".

The principle of "unfair trade", in GATT terms, is currently used in order to define exports which do not comply with articles VI and XVI of the General Agreement, as interpreted in the 1979 anti-dumping and anti-subsidizations codes. In fact, whereas measures like the imposition of tariff duties and quotas are by essence public, and can be immediately met by demand for compensation, the existence and effects of dumping and subsidization are frequently difficult to establish.

Both the US and the EC have adopted over the years legal systems, based on the GATT system, in order to define the procedures for establishing the existence or the threat of "material injury to a domestic industry", or "material retardation of the establishment of such an industry" caused by dumping or subsidies, and the fixation of anti-dumping and counter-vailing duties.

It must be noticed, however, that GATT codification is far from clear, especially as concerns the case for so-called "domestic subsidies" (export subsidies on the other hand, are clearly defined in the code and

banned for all products except primary products).

The following table (based on Commission data) establishes a certain parallelism between US, EC and GATT measures as concerns trade law remedies against "unfair" imports.

<u>US</u>	<u>GATT</u>	<u>EC</u>
Section 201 of the 1974 Trade Act (Escape clause)	Art. XIX	Regulation 288/82 (Title V)
Section 301 of the 1974 Trade Act (Unfair Trading Practices)	Art. XXIII (only under the Agreement)	Regulation 2641/84
Section 701 of the 1930 Tariff Act (Countervailing duties)	Art. VI + XVI + Code	Regulation 2176/84 Regulation 2177/84
Section 731 of the 1930 Tariff Act (Anti-dumping duties)	Art. VI + Code	
Section 232 of the 1962 Trade Expansion Act (Safe- guarding national security)	Art. XXI	Article 223(1) (b) of Treaty
Section 22 of the 1933 Agricultural Adjustment Act		No comparable equivalent under EC law except in the case of agricultural products where a variable levy may be regarded as fulfilling a similar purpose.

Both the US 1974 Trade Act and the 1930 Tariff Act have been considerably amended, lastly by the 1984 Trade and Tariff Act.

It is difficult to make a comparison between the effectiveness of the EC and the US legal system for ensuring a "fair trade": some information might be gathered on the actual number and distribution over the last years of cases initiated and concluded. A detailed analysis of the consistency

of both systems with GATT principles falls clearly out of the scope of the present study: I will however indicate, in dealing with the various sectors concerned, some cases in which these measures have been activated.

C. INDUSTRIAL PRODUCTS

9. Carbon and alloy steel products

The problem of steel exports from the Community can be considered as a good example of the way US "unfair trade" legislation has been used in order to obtain a "self restraint" agreement from a trading partner.

The petitions for relief filed by US enterprises in early 1982 (sections 701, 731 and 301) against Community exports of steel products were subject to a precise procedural time-table, leading automatically to decision, and the Community sought to conclude an agreement on limiting the export of certain products, prior to the decision on the cases, and on condition that the petitions be withdrawn.

The agreement was concluded on 21 October 1982 for the period until the end of 1985: it provides for limits on Community exports for 10 categories of products, in terms of US market share, ranging from 2,20% to 21,85%. (Overall penetration was estimated at 5,6% approximately). A system of licenses was created by the Community in order to monitor exports and allocate quotas between Member States.

The objective of the agreement is "to give time to permit restructuring" in the industries both of the US and the Community: it is concluded for the period until end of 1985 as, in theory, at least by that time all public aid to Community steel industries should end, in conformity with ECSC State aids Code.

10. The Community's effort in restructuring its steel industries can hardly be disputed: ECSC decision on 29 June 1983 provided for reductions in capacities of at least 26.7 million tons, (out of 169 million in 1980).

Reductions in capacities on the American side have been, in the 1981-1984 period, approximately 21 million tons (1), leading to an estimated

(1) United States Mission to the Community: USA text 94 - 26 December 1984

capacity of 131 million tons. The basic problem with the agreement, however is that it does not oblige each side to promote the restructuring of its industry, nor does it fix time-tables in that direction.

It is possible therefore to conclude that "the Arrangement is simply another successor to the voluntary restraint agreements and to the US Trigger price mechanism" and the problem dealt with "is again that of foreign imports and not that of competitiveness and structure of the home industry" (1).

Furthermore, the agreement leaves many problems open as concerns the interpretation of the GATT subsidies code, and constitutes "another step in the organisation of world trade" (2), and towards international market-sharing practices.

The US, notably, has decided to control the total volume of steel imports from almost all sources until 1989. Self-restraint agreements were recently reached with Japan, Brasil, South Korea and Spain: the US is aiming to reduce overall steel product imports to 20.5% (1984: 24%).

The ECSC, on its side, maintains a system of basic prices for imports, calculated so as to avoid dumping on its markets, and of restraint agreements with 14 third countries. As a result, total imports have risen only from 9.17%(1979) to 9.86%(1982) of the Community's market.

The Commission has however received a mandate from the Council for negotiating a certain relaxation of ECSC import quotas in existing restraint agreements.

11. Special steels

The 1982 Agreement did not extend to special steels, for which the US president, under section 201 of the Trade Act of 1974, imposed on 5 July 1983 tariff and import quotas.

This action was based, on international level, on GATT article XIX (Emergency action on Imports of particular products), and was therefore

(1) Bourgeois and Bunyon - The European Community / United States steel Arrangement 1984 - Common Market Law Review 21 - 1984

(2) Ibidem

subject to compensation to the Community: since no agreement could be reached on compensation, the Community decided unilaterally, on 1 March 1984, to put quotas on certain US exports to the EC (mainly skis and chemical products).

12. Pipes_and_tubes

A separate exchange of letters, annexed to the 1982 agreement, provided that both the Community and the US could ask for consultations if ECSC deliveries to the US market went over their average share in the 1978-1981 period (5,9%). The Community has considered however, that several exceptions apply to the calculation of the "US apparent consumption", such as the "short supply" clause, contained in article 8 of the 1982 agreement.

According to the US, these exceptions, if implemented, would raise the Community's share up to 14%.

Following a unilateral block of imports by the US in November 1984, the Community and the US concluded an agreement on 9 January 1985, valid until 31 December 1986, limiting ECSC exports to 7.6% + "short supply".

Immediate disagreement broke out, however, on the interpretation of the "short supply" clause, which has led to new consultations and new problems in the case of exports of "oil country tubular goods".

13. ECSC/US "consultation products"

For a series of 17 steel products, including semi-finished products, the 1982 agreement provides for consultations, in case that trade in these products "impair or threaten to impair the attainment of the objectives of the Arrangement".

The US maintain that a trade diversion has occurred from imports subject to the arrangement towards imports of these "consultation products".

The Community on the other hand points out that the overall penetration of ECSC exports to the US has not increased above its 1981 level (1981: 5.35%; 1982: 6.25%; 1983: 4.67%; 1984: 4.93% for 10 months).

Consultations have therefore taken place, without any results to this moment.

14. Conclusions

US/EC trade relations in steel products are a good example of the difficulties caused by market-sharing agreements: not only do they tend to perpetuate themselves (the 1982 agreement will have probably to be renewed), but there is no guarantee that the "temporary" relief given to ailing industries will be used for restructuring and becoming competitive.

On the other hand, the interpretation and implementation of the agreements offers almost infinite possibilities for misunderstandings and disputes.

The Community's protests against the US protectionist attitude are naturally undermined by the fact that public subsidization of its industries has been quite strong, and the GATT code on subsidies does not provide for a sufficiently clear legal base for ruling out unilateral reaction to exports of subsidized goods, provided that "material injury" has been proven.

It can be pointed out however that ECSC not only operated considerable reductions in capacity during the years in question, but has also set a time-table for phasing out subsidies by the end of 1985.

On the US side, no clear commitment towards reducing capacity has been undertaken. The 1984 Trade and Tariff Act in particular recommends in fact a market-sharing approach, so that the steel imports will be maintained in the 17.0 to 20.2% range: authority is however provided to the President in order to enforce bilateral restraint agreements "subject to the condition that the steel industry undertake comprehensive modernization".

The act also recognizes that "import relief will be ineffective and will not serve the national economic interest" unless the industry "engages in serious efforts substantially to modernize and to improve its international competitiveness".

D. AGRICULTURE

15. General Data

The Community is the biggest importer in the world of agricultural products, and the most important market for US exports. Over the years, however, the EC has also become a very important exporter on world markets, accounting for approximately 10% of world exports.

(USD billion)

Value of world, EC and US exports for agricultural products

	<u>1973</u>	<u>1978</u>	<u>1980</u>	<u>1982</u>	<u>1983</u>
World	98.6	171.7	245.8	224.7	222.6
EC	9.7	17.6	28.1	25.1	23.8
US		33.0	46.4	41.7	40.9
EC share in %	9.8	10.3	11.4	11.2	10.7
US share in %		19.2	18.9	18.6	18.4

Excluding intra-EC trade

Source: - EC Commission 1984 Report on Agriculture
- COMTRADE

The Community has attained self-sufficiency in a number of sectors, including cereals, sugar, vegetables, dairy products, meat.

EC agriculture exports have been more dynamic, over the 1973-1983 period, than world exports generally; on 1973 basis, the evolution has been:

	<u>1973</u>	<u>1978</u>	<u>1980</u>	<u>1982</u>	<u>1983</u>
World exports	100	174.1	249.3	227.9	225.3
EC exports	100	181.4	289.7	258.8	245.4

Source: - EC Commission 1984 Report on Agriculture

The US is traditionally a net exporter of agricultural products: the evolution in 82/83 has been the following:

(USD billion)			
<u>US:</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1982	41.7	23,7	+28,0
1983	40.9	26,0	+14,9

16. Present structure of EC/US trade

The following table reflects trade in agricultural products subject to EC regulations for the period January-June 1984:

	(1,000 ECU)	
	<u>EC Exports to US</u>	<u>EC Imports from US</u>
Pork	5,589	13,654
Beef	6,200	69,468
Sheep and goat meat	1	867
Poultry	93	6,906
Fish	89,077	84,722
Cereals	9,735	450,525
Rice	253	77,667
Dairy produce	99,783	1,138
Eggs	2,472	2,403
Fresh fruit, vegetable	16,764	133,926
Processed fruit, vegetable	56,219	68,610
Hops	14,861	5,639
Flowers	50,469	15,355
Oils and fats	27,710	2,464,076
Grains and seed	7,758	61,310
Sugar	13,928	25,605
Wine	334,180	4,073
Tobacco	51,352	335,861
Flax	3,218	45
Hemps		
Dry forage		4,339
Rest annexe II	84,370	703,058
Other processed products	185,345	30,401
Rest Chapt. 01-24	782,282	84,124
Agr.prod.chapt. 25-99	64,963	751,828
Total agricult. prod.	1,906,622	5,395,600

It can be noticed that overall EC deficit (total agriculture production) for 6 months is running at approximately 3,486 million ECU. The most important negative headings are cereals (-440.7 million) and oils and fats (-2,436.3 million); the most important positive heading is wine (+ 330 million).

The EC deficits in the previous years have been:

1981: -5,590 1982: -6,402 1983: -5,605 (million ECU).

Although final figures for 1984 are not yet available, the trend shows therefore an increase in the EC deficit.

17. History of EC/US trade and GATT issues

The setting up of the CAP, with its system of variable import levies and export refunds, was in fact only possible as a result of previous measures taken by the USA.

In 1955 the US obtained a formal waiver from GATT provisions in order to "continue to use import quotas and fees to the extent necessary to prevent material interference with its domestic agricultural support programmes, so legitimizing the primacy of such programmes over international trade obligations". (1).

Since GATT provisions allow export subsidies to be used for primary products (article XVI), subject to the condition that they do not allow a country "more than an equitable share of world trade", the EC was able to set up in the 60's its external trade mechanisms for the CAP.

The discussions in the Dillon Round and in the Kennedy Round were however centered on the unwillingness of the US to accept, without adequate compensation, losses caused to its exports by the setting up of CAP: in the Dillon Round the US obtained an important concession, i.e. the binding of EC duty rates at low or zero levels for manioc, corn, gluten, oilseeds and oilseed products.

The CAP was subject to heavy attack also in the Tokyo Round, while the main exporters tried to bring international trade in agriculture under the

(1) Harris, Swindbank, Wilkinson - The Food and Farm policies of the European Community, 1984, p. 275.

same discipline as industrial trade: the Commission, however, had received a negotiating mandate which stated that "the CAP's principles and mechanisms shall not be called into question and therefore do not constitute a matter for negotiation" (1).

The EC continued therefore to support an approach based on the International commodity agreements, as a means of stabilizing and raising world prices, and reducing the cost of the CAP's export subsidies.

The results of the Tokyo Round were therefore very limited as concerns agricultural products. The feeling in the Community was, however, that by its concessions in industrial liberalization, it had obtained a recognition of the CAP by its trading partners.

18. EC/US disputes

The disputes have been continuous, starting with the interpretation of the EC/US "standstill agreements" which sought to freeze the position as at 1 September 1960 for trade in a number of products (e.g. the so called "chicken war" concerning US exports to Germany).

In particular, in the 70's, the US applied frequently countervailing duties on EC exports; the Community maintained that the US did not abide by GATT rules, insofar that they did not prove "material injury" to its producers before doing so.

On the other hand, the Community took several non-duty measures which were heavily criticised by its trading partners (i.e. 1974-1977 three year beef import ban; 1976 scheme for soya imports).

In the meantime, competition of EC and US exports on the third markets developed itself also considerably, as the EC obtained and went over self-sufficiency level in the cereal sector and relied more heavily on exports for the disposition of surpluses in the dairy sector.

The EC/ACP and the EC/Mediterranean countries preferential trade agreements were also criticised by the US insofar that they constituted exceptions to the principle of non-discrimination (embodied

(1) Almost exactly the same expression has been used by the Council in its March 1985 declaration on a future GATT negotiating round.

in the most favoured nation treatment) which is the base of multilateral free trade in the GATT system; article XXIV, regulating the establishment of Customs unions and Free-trade areas is interpreted in diverging manner by the US and the EC.

19. The EC has tried in the last few years to obtain a stabilization of imports from the US as concerns certain products used for animal food, such as corn gluten feed and maize pellets; the zero rates applied by the EC for these products however (see point no. 17) formed part of the results of the negotiations in GATT which accompanied the setting up of the CAP: on that occasion, the Community obtained the possibility of setting up duties in the cereal, dairy and meat sector, in exchange of concessions on products like soybeans and corn gluten.

Any limit imposed to US exports should therefore be negotiated through GATT (article XVIII) and would be subject to compensations offered to US: unilateral limits would expose the Community to retaliation by the US. The US has not shown any interest in coming to an agreement on this subject with the EC; as a matter of fact, it seems that the Community itself does not aim any more to obtain stabilization at the proposed level since, from the first data available, it seems that US exports in 1984 have been running at a sensibly lower level than in 1983.

The imposition by the EC of a tax on vegetable oils and fats seems also to have been abandoned for much the same reasons.

US exports to EC (million ECU)

		<u>Overall</u>	<u>Monthly average</u>
Cereals	1981	210	17.6
	1982	1,410	117.5
	1983	1,088	90.7
	1984	757	84.1
	(9 months)		
Oils and fats	1981	3,903	325
	1982	4,329	361
	1983	4,174	348
	1984	2,825	313
	(9 months)		

The US Congress has adopted in the 1984 trade and tariff act, a "sense of Congress" that the President should oppose the measures discussed above: "if unilateral action is taken by the EC to restrict or inhibit the importation of either non grain feed ingredients, including corn gluten feed, or vegetable fats and oils, including soybean products, the US should act immediately to restrict EC imports of at least the aggregate value of the reduced and potentially reduced US export products".

The US retaliation would probably harm EC exports in the industrial sector, as well as the one agricultural product in which the EC seems to be highly competitive on the US market, namely wine (EC exports 1981: 509 mio ECU; 1982: 617 million; 1983: 736 million; 1984: (9 months) 526 million).

The US trade and tariff act 1984 already paves some ground for protectionist measures, by stating that "there is a substantial imbalance in international wine trade" as concerns access to US market and access to foreign markets, and by asking the President to report within 12 months on the results obtained through consultations with each major wine trading country.

The act also expands the definition of the wine sector so as to include grape producers, who are now also enabled to file requests for import relief against foreign wine producers.

The EC maintains that the GATT system is based on overall and multilateral reciprocity, so that any request for reciprocity in one sector only could impair the whole system: it also maintains that the GATT definition of industry does not allow the US interpretation.

20. GATT_committee_on_trade_in_agriculture

Need for achieving greater liberalization in the trade in agricultural products was recognized in GATT, which set up the Committee on trade in Agriculture (November 1982) in order to "examine trade measures affecting market_access and supplies (including measures_maintained_under_exceptions or derogations) and the operation of the General agreement as regards subsidies_affecting_agriculture, including export subsidies and other forms of assistance".

This formula points out the three major problems in this sector, which bear heavily on US/EC trade relations:

- 1) The_waiver accorded to the US in March 1955 as concerns obligations under articles II ("schedules of concessions") and XI ("general elimination of quantitative restrictions") of GATT, to the extent necessary to prevent conflicts with Section 22 of the US Agricultural Adjustment Act. This section requires the administration to impose quantitative restrictions and special duties on imports likely to damage US farm programmes.
- 2) The system of variable_levies on access to the EC markets operated by the CAP.
- 3) The heavy_subsidization supplied by several Contracting Parties (including the US and the EC) to the agricultural sectors, which comprises both domestic subsidies and export subsidies.

The recommendations adopted on 15 November 1984 by the Committee on trade in agriculture refer to all these problems (1), and stress the importance of strengthening GATT discipline on these aspects of trade. As concerns export_subsidies however, the EC and the US position

(1) GATT L/5732, 16 November 1984

could not be reconciled, so that the committee decided that "the following approaches should be elaborated in parallel":

- improvements in the existing framework of rules and disciplines (the "EC approach");
- a general prohibition, subject to carefully defined exceptions, in conjunction with improvements in the existing rules and disciplines and their application ("US approach").

21. The US waiver

The 1983 GATT report (1) reflects the views of several members of the ad-hoc GATT working party that "the US had made no serious efforts to eliminate the underlying causes of surplus production".

For this reason there was not sufficient justification for the US "not replacing Section 22 controls with measures consistent with GATT".

Several members, including the EC, insisted that they "would oppose to deflect discussions of the waiver solely to the Committee on Trade in Agriculture".

It is my opinion that in any forthcoming GATT negotiation round, the US waiver should form a central point of discussion in the agricultural sector. However, it must be apparent, in this context, that the Council's declaration of March 1985 would be difficult to sustain.

22. Subsidies

It is extremely difficult to evaluate total subsidization to agriculture in the US and in the EC, considering the variety of instruments adopted, and any comparison would depend on the dollar/ECU exchange rate adopted.

EC

A rough estimate of EC domestic and export subsidies to its agriculture can be supplied by the budgetary costs of intervention and export refunds:

(1) GATT activities in 1983 - Geneva, June 1984.

FEOGA Guarantee Expenditure: Export Refunds and Intervention, 1977-84

(ECU mn)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984(a)</u>
Intervention	4,001.1	4,923.1	5,458.9	5,620.2	5,932.6	7,352	10,360	11,683
Export								
refunds	2,830.3	3,749.6	4,981.8	5,695.0	5,208.6	5,054	5,560	6,718
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Total	6,830.4	8,672.7	10,440.7	11,315.2	11,141.2	12,406	15,920	18,401
Intervention								
as % of total	58.6	56.8	52.3	49.7	53.2	59.3	65.1	63.5
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(a) 1984 supplementary and amending budget.

Source: Commission - annual agriculture reports.

US

An analysis of US subsidies should bear in mind that direct and indirect forms of subsidization are highly developed, and include a mix of loan programmes, intervention, set-aside and payment-in-kind measures:

(US million)					
<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
3,610	2,750	4,040	11,650	18,850	7,310

Source: Financial Times, 31 January 1985

In absolute size and at exchange rates prevailing in the years considered, the amount of subsidies was therefore higher in the US in 1983, and in the EC in 1984. Further information will have to be gathered on this subject.

23. The new US Farm bill

The 1985 Farm bill, now before Congress, proposes dropping price supports and subsidies, ending acreage reduction schemes, and limiting government

subventions to individual farmers.

According to Secretary of Agriculture John Block (1), expenses over the next five years, under existing US farm programs, would cost 60,000 to 85,000 million USD with the current law, and would be cut to 20,000 - 35,000 million by the new program. Yearly expenses would therefore drop from the 12,000/17,000 million range to a 4,000/7,000 million range: in ECU terms (assuming a rate at 1.40) this would mean 5,600/9,800 MioECU by year.

The expected effect of the Farm bill would be to depress US and world prices, especially in the grain sector, to strengthen US exports and to cause heavy increases in export restitutions by the EC.

24. Restructuring the CAP

The Community has set up a "steering committee" on perspectives of CAP, which has organized itself in working groups, one of them centered on external trade in agricultural products. The following time-table will apply to report from the working groups and the committee:

- mid-June: Commission document, pointing out the different options available;
- mid-October: discussion in the EP;
- November: Commission memorandum to the Council.

President Delors has stressed, in addressing the EP on 17 April 1985, that "we must prove, in order to defend our trading positions on external markets, that we are making an effort towards reducing surpluses". He also pointed out that, if the US is restructuring its Farm policies, the EC should revise its lax attitude in order to maintain credibility.

This coincides with the EP position, expressed in the Catherwood report (2) on CAP and EC external relations, that the US and the Community should reach an agreement on limitations of costly export subventions. It also asked the Commission to report on the

(1) United States Mission to the EC - USA Text 25 February 1985.

(2) Resolution 7 July 1983; OJ n. C 242 of 12 September 1983.

advantages that measures like the American "set-aside" and the "payment-in-kind" programmes could have over price guarantee programmes.

25. Conclusions

The exclusion of trade in agricultural products from a tight GATT discipline has produced as a consequence a high degree of protection in this sector and an extraordinary high level of subsidization which, as between the US and the EC, have offset themselves to a great extent.

Both the waiver enabling the US to pursue domestic policies regardless of certain GATT dispositions, and the CAP system of variable levies and refunds should be discussed in the next MTN of GATT.

In particular, a review of the subsidies code, putting clear limits to export subventions and abandoning reference to principles such as "fair share of world markets", could prove itself highly useful.

In this context, the 19 March 1985 Council declaration that basic objectives and mechanism, internal and external, of the CAP should not be put in question, does not seem an encouraging start for the new GATT negotiations.

E. OVERALL ASSESSMENT

26. Protectionism, as a general rule, does not provide any lasting economic advantage to the State resorting to it: it simply amounts to redistributing revenue from certain general categories (i.e. consumers) to certain specific categories (workers of the protected industries). State subventions operate much the same way, by transferring funds from tax payers to specific categories of workers.

If some scope for limited protection might be found in counteracting abrupt phenomena like import "surges" or the like, experience shows that protective measures tend to perpetuate themselves, and the political debate rarely succeeds in making clear to the public the economic costs of such measures and the way that revenue distribution will be affected by them.

27. EC/US trade has been affected, overall, by the weakening of the GATT system by the proliferation of non-tariff trade barriers, and in particular of "orderly marketing agreements" and "voluntary restraints". Annex I shows an up-to-date general image of this situation.

The system of international market-sharing, which has prevailed in sectors like steel, has created enormous problems for EC exports to the US: any further extension of this approach, to sectors like agricultural markets (e.g. cereal markets) would mean not only further economic costs, but preparing the ground for renewed international disputes.

The strengthening of the GATT system, based on multilateral free trade, on the basis of MFN clause, appears as the only effective way to solve the US/EC trade disputes; the next negotiation round should comprise therefore, in particular, the following points:

- 1) tightening and clarification of the subsidies code (both for domestic and export subsidies);
- 2) tightening of GATT discipline for agricultural sector: rediscussion of the US waiver and the external consequences of the CAP;
- 3) improvements to the dispute settlements procedures in GATT: possibility of banning unilateral imposition of antidumping countervailing duties.

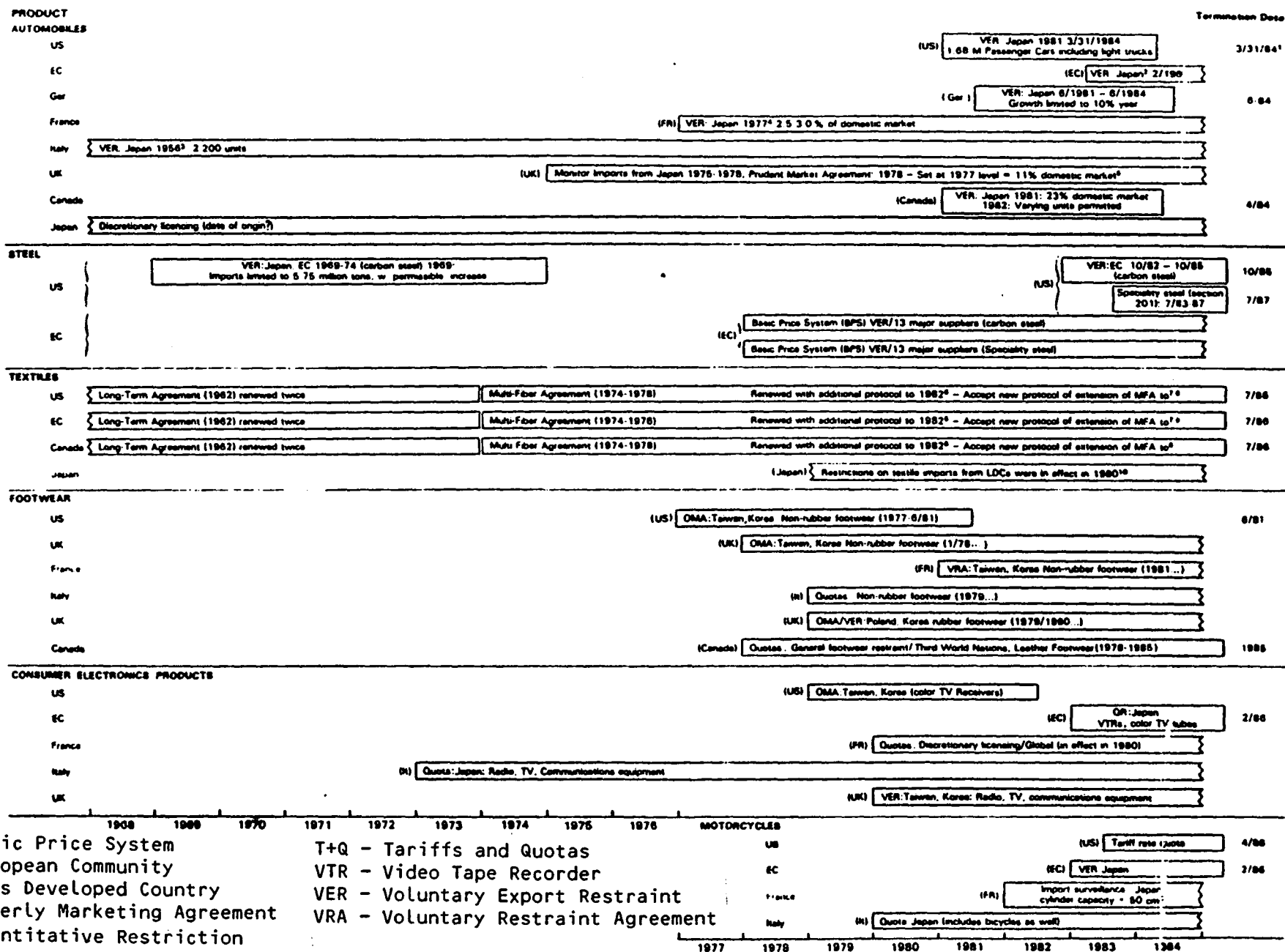
28. The US and the EC have suffered badly from changes in international patterns of productivity and trade: newly industrialized nations have considerably improved their performances in the last years, and whole sectors of traditional industries have undergone a deep crisis both in the US and in the EC.

Protectionism, in these conditions, appears simply as a rear-guard battle, delaying, at enormous costs for both partners, needed structural changes.

Note:

This working paper deals only with trade problems in US/EC relations. The financial consequences of protectionism (capital movements, exchange and interest rates, EMS/ECU issues) will be dealt with in a subsequent working paper.

THE SPREAD OF NON TARIFF BARRIERS FACING MAJOR IMPORT CATEGORIES, 1968-1983



Source: OECD

BPS - Basic Price System
EC - European Community
LDC - Less Developed Country
OMA - Orderly Marketing Agreement
QR - Quantitative Restriction

ANNEX I

